MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BEC1044 –MACROECONOMICS

(All sections / Groups)

03 MARCH 2017
3.00 p.m. - 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **9** pages with **2** sections only.
   Section A – Forty (40) Multiple Choice Questions
   Section B – Three (3) Structured Questions

2. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. One bag of almond flour is sold for RM2.00 to a bakery, which uses the almond flour to bake bread that is sold for RM6.00 to consumers. A second bag of almond flour is sold to a consumer in a grocery store for RM4.00. Taking these three transactions into account, what is the effect on Gross Domestic Product (GDP)?
   A. GDP increases by RM4.00.
   B. GDP increases by RM6.00.
   C. GDP increases by RM10.00.
   D. GDP increases by RM12.00.

2. Suppose an economy produces only apple and orange. In 2014, 100 apples are sold at RM3 each and 50 oranges are sold at RM4 each. In 2013, the base year, apple sold at RM1.50 each and orange sold at RM5 each. For 2014,
   A. nominal GDP is RM400, real GDP is RM500, and the GDP deflator is 80.
   B. nominal GDP is RM400, real GDP is RM500, and the GDP deflator is 125.
   C. nominal GDP is RM500, real GDP is RM400, and the GDP deflator is 80.
   D. nominal GDP is RM500, real GDP is RM400, and the GDP deflator is 125.

3. GDP does not consider
   A. the value of leisure.
   B. the quality of the environment.
   C. the value of goods and services produced at home.
   D. All of the above are correct.

4. The difference between Consumer Price Index (CPI) and GDP Deflator is
   A. unmeasured quality change is not a problem with the CPI, but it is a problem with the GDP deflator.
   B. the CPI is a price index, while the GDP deflator is an inflation index.
   C. increases in the prices of foreign produced goods that are sold to Malaysia consumers show up in the CPI but not in the GDP deflator.
   D. increases in the prices of domestically produced goods that are sold to the Malaysia government show up in the CPI but not in the GDP deflator.

5. Suppose a basket of goods and services has been selected to calculate the CPI and 2013 has been selected as the base year. In 2011, the basket's cost was RM50; in 2013, the basket's cost was RM52; and in 2015, the basket's cost was RM54.60. The value of the CPI in 2015 was
   A. 91.6.
   B. 95.2.
   C. 105.0.
   D. 109.2.

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6. When the quality of a good improves while its price remains the same, the purchasing power of the dollar
   A. increases, so the CPI understates the change in the cost of living if the quality change is not accounted for.
   B. increases, so the CPI overstates the change in the cost of living if the quality change is not accounted for.
   C. decreases, so the CPI overstates the change in the cost of living if the quality change is not accounted for.
   D. decreases, so the CPI understates the change in the cost of living if the quality change is not accounted for.

7. The catch-up effect refers to the idea that
   A. it is easier for a country to grow fast and so catch-up if it starts out relatively rich.
   B. it is easier for a country to grow fast and so catch-up if it starts out relatively poor.
   C. population eventually catches-up with increased output.
   D. if investment spending is low, increased saving will help investment to "catch-up."

8. Which of the following is a determinant of productivity?
   A. quantity of goods and services
   B. living standards
   C. real GDP per person
   D. human capital

9. To know how the material well-being of the average person has changed over time in a country, we should look at the
   A. level of real GDP.
   B. growth rate of real GDP.
   C. growth rate of nominal GDP.
   D. growth rate of real GDP per person.

10. In the long run, an increase in the saving rate
    A. doesn't change the level of productivity or income.
    B. will raise the levels of productivity and income.
    C. will raise the level of productivity but not the level of income.
    D. will raise the level of income but no the level of productivity.

11. Suppose the Marginal Propensity to Consume (MPC) is ¾. If investment spending falls by RM15 billion, the level of GDP will:
    A. fall by RM60 billion
    B. fall by RM30 billion
    C. fall by RM15 billion
    D. fall by RM7.5 billion

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12. In an Aggregate Expenditures Model with no government or foreign sectors, savings is equal to investment when output is:
    A. Equal to the equilibrium level of output
    B. Greater than the equilibrium level of output
    C. Less than the equilibrium level of output
    D. Constant

13. Based on a particular saving schedule, each change in disposable income of RM15 billion will generate an additional RM3 billion in saving. Therefore:
    A. the Marginal Propensity to Save (MPS) is 0.3
    B. the Marginal Propensity to Save (MPS) is 0.2
    C. the Marginal Propensity to Save (MPS) is 0.5
    D. the slope of the consumption schedule is 0.7

14. Other things the same, as the price level rises, the real value of money
    A. and the exchange rate rise.
    B. and the exchange rate fall.
    C. rises and the exchange rate falls.
    D. falls and the exchange rate rises.

15. Suppose a stock market crash makes people feel poorer. This decrease in wealth would induce people to
    A. decrease consumption, which shifts aggregate supply left.
    B. decrease consumption, which shifts aggregate demand left.
    C. increase consumption, which shifts aggregate supply right.
    D. increase consumption, which shifts aggregate demand right.

16. Which of the following adjusts to bring aggregate supply and demand into balance?
    A. the price level and real output
    B. the real rate of interest and the money supply
    C. government expenditures and taxes
    D. the saving rate and net exports

17. The sticky-price theory of the short-run aggregate supply curve says that when the price level is higher than expected, some firms will have
    A. higher than desired prices which increases their sales.
    B. higher than desired prices which depresses their sales.
    C. lower than desired prices which increases their sales.
    D. lower than desired prices which depresses their sales.

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18. Suppose the banking system currently has RM300 billion in reserves, that the reserve requirement is 10%, and that RM3 billion of the reserves are excess reserves that will not be lent out. What is the value of deposits?
    A. RM3,300 billion
    B. RM2,970 billion
    C. RM2,700 billion
    D. RM2,673 billion

19. If the reserve ratio is 12.5 percent, RM1,000 of additional reserves can create
    A. RM7, 000 of new money.
    B. RM8, 000 of new money.
    C. RM11, 500 of new money.
    D. RM12, 500 of new money.

20. In a fractional reserve banking system, a decrease in reserve requirements
    A. increases both the money multiplier and the money supply.
    B. decreases both the money multiplier and the money supply.
    C. increases the money multiplier, but decreases the money supply.
    D. decreases the money multiplier, but increases the money supply.

21. According to the assumptions of quantity theory, if the money supply increases 5% then
    A. nominal and real GDP would rise by 5%.
    B. nominal GDP would rise by 5%; real GDP would be unchanged.
    C. nominal GDP would be unchanged; real GDP would rise by 5%.
    D. neither nominal GDP nor real GDP would change.

22. Governments may prefer an inflation tax to some other kind of tax because the inflation tax
    A. is easier to impose.
    B. reduces inflation.
    C. falls mainly on high-income individuals.
    D. reduces the real cost of government expenditure.

23. Hafeni puts money into an account. One year later he sees that he has 5 percent more dollars and that his money will buy 6 percent more goods.
    A. The nominal interest rate was 11 percent and the inflation rate was 5 percent.
    B. The nominal interest rate was 6 percent and the inflation rate was 5 percent.
    C. The nominal interest rate was 5 percent and the inflation rate was -1 percent.
    D. None of the above is correct.

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24. Assume the money market is initially in equilibrium. If the price level increases, then according to liquidity preference theory there is an excess
    A. supply of money until the interest rate increases.
    B. supply of money until the interest rate decreases.
    C. demand for money until the interest rate increases.
    D. demand for money until the interest rate decreases.

25. In the short run an increase in government expenditures
    A. raises the price level, but not real GDP.
    B. raises real GDP, but not the price level.
    C. raises real GDP and the price level.
    D. raises neither real GDP nor the price level.

26. Assume the multiplier is 5 and that the total crowding-out effect is RM20 billion. An increase in government purchases of RM10 billion when the multiplier is 5 will shift the aggregate demand curve
    A. right RM150 billion.
    B. right RM70 billion.
    C. right RM30 billion.
    D. None of the above is correct.

27. One determinant of the long-run average unemployment rate is the
    A. market power of unions, while the inflation rate depends primarily upon government spending.
    B. minimum wage, while the inflation rate depends primarily upon the money supply growth rate.
    C. rate of growth of the money supply, while the inflation rate depends primarily upon the market power of unions.
    D. existence of efficiency wages, while the inflation rate depends primarily upon the extent to which firms are competitive.

28. The short-run Phillips curve intersects the long-run Phillips curve where
    A. the actual rate of inflation equals the expected rate of inflation.
    B. the actual rate of unemployment equals the natural rate of unemployment.
    C. Both A and B are correct.
    D. None of the above is correct.

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29. Net capital outflow is defined as the purchase of
    A. foreign assets by domestic residents minus the purchase of domestic assets by foreign residents.
    B. foreign assets by domestic residents minus the purchase of foreign goods and services by domestic residents.
    C. domestic assets by foreign residents minus the purchase of domestic goods and services by foreign residents.
    D. domestic assets by foreign residents minus the purchase of foreign assets by domestic residents.

30. Which of the following is an example of U.S. foreign direct investment?
    A. A Polish company opens a shipbuilding plant in the United States.
    B. A Bolivian bank buys U.S. corporate bonds.
    C. A U.S. bank buys Bolivian corporate bonds.
    D. A U.S. furniture maker opens a plant in Mexico.

31. If a country had a trade surplus of RM50 billion and then its exports rose by RM30 billion and its imports rose by RM20 billion, its net exports would now be
    A. RM0 billion.
    B. RM20 billion.
    C. RM40 billion.
    D. RM60 billion.

32. Which of the following equations is always correct in an open economy?
    A. $I = Y - C$
    B. $I = S$
    C. $I = S - NCO$
    D. $I = S + NX$

33. The nominal exchange rate is the
    A. nominal interest rate in one country divided by the nominal interest rate in the other country.
    B. the ratio of a foreign country's interest rate to the domestic interest rate.
    C. rate at which a person can trade the currency of one country for another.
    D. the real exchange rate minus the inflation rate.

34. The price of a basket of goods and services in the U.S. is $600. In Canada the same basket of goods costs 700 Canadian dollars. If the nominal exchange rate were 1.2 Canadian dollars per U.S. dollar, what would be the real exchange rate?
    A. 700/600
    B. 600/700
    C. 700/720
    D. None of the above is correct.

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35. In the open-economy macroeconomic model, the supply of loanable funds comes from
    A. national saving. Demand comes from only domestic investment.
    B. national saving. Demand comes from domestic investment and net capital outflow.
    C. Only net capital outflow. Demand for loanable funds comes from national saving.
    D. domestic investment and net capital outflow. Demand for loanable funds comes from national saving.

36. Other things the same, as the real interest rate rises
    A. domestic investment and net capital outflow both rise.
    B. domestic investment and net capital outflow both fall.
    C. domestic investment rises and net capital outflow falls.
    D. domestic investment falls and net capital outflow rises.

37. If inflation falls,
    A. people choose to put in more effort to keep money balances low. When inflation is unexpectedly low it redistributes wealth from lenders to borrowers.
    B. people choose to put in more effort to keep money balances low. When inflation is unexpectedly low it redistributes wealth from borrowers to lenders.
    C. people choose to put in less effort to keep money balances low. When inflation is unexpectedly low it redistributes wealth from lenders to borrowers.
    D. people choose to put in less effort to keep money balances low. When inflation is unexpectedly low it redistributes wealth from borrowers to lenders.

38. Which of the following two effects of a decrease in the tax rate on saving would raise savings?
    A. the income effect and the substitution effect
    B. the income effect but not the substitution effect
    C. the substitution effect but not the income effect
    D. neither the substitution effect nor the income effect

39. In the long run, policy that changes aggregate demand changes
    A. both unemployment and the price level.
    B. neither unemployment nor the price level.
    C. only unemployment.
    D. only the price level.

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40. A Japanese flour mill buys wheat from the United States and pays for it with yen. Other things the same, Japanese
    A. net exports increase, and U.S. net capital outflow increases.
    B. net exports increase, and U.S. net capital outflow decreases.
    C. net exports decrease, and U.S. net capital outflow increases.
    D. net exports decrease, and U.S. net capital outflow decreases.

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

QUESTION 1 (20 MARKS)

(a) In year 2014, assume that people consume only three types of foods, which are rice, broccoli and egg. They purchase 100 units of rice for RM200, 50 units of broccoli for RM75, and 500 units of eggs for RM100. In year 2015, they buy 75 units of rice for RM225, 80 units of broccoli for RM120, and 500 units of eggs for RM100. Refer to the above information, calculate the price of each food in each year. Using 2014 as the base year, calculate the Consumer Price Index (CPI) for each year. Compute the inflation rate in 2015.

(10 marks)

(b) Assume that real GDP for an economy is RM6, 435,000 million in year 2004 and RM11, 092,000 million in year 2014. The population growth was 243 million in year 2004 and 296.6 million in year 2014.

(i) Compute the growth rate of real GDP (3 marks)
(ii) Compute the real GDP per capita for each year (4 marks)
(iii) Compute the growth rate of real GDP per capita from 2004 to 2014 (3 marks)

QUESTION 2 (20 MARKS)

(a) How does a rise in the foreign exchange rate affect aggregate demand in Malaysia? Explain your answer. (4 marks)

(b) Using aggregate supply and aggregate demand curves, indicate what impact each of the following would have on the price level and on the equilibrium level of aggregate output in the short run.
(i) The Central Bank buys bonds in the open market. (3 marks)
(ii) The economy is far below capacity and the government increases government spending. (3 marks)

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(c) A commercial bank has deposits of RM100, 000 and total reserves amounting to RM31, 000. The required reserve ratio is 15%. All other banks are loaned up.

(i) What is the largest loan can this bank make? (2 marks)
(ii) What is the value of the money multiplier? (2 marks)
(iii) If the initial loan is made, what is the maximum expansion that can occur in the money supply if other banks also lend as much as possible? (2 marks)

(d)

(i) Explain when and how the crowding-out effect occurs. (2 marks)
(ii) Explain the impact of interest sensitivity of investment demand on the effectiveness of monetary policy. (2 marks)

QUESTION 3 (20 MARKS)

(a) Explain the connection between the vertical long-run aggregate supply curve and the vertical long-run Phillips curve. (5 marks)

(b) Explain the relation between real exchange rate and net export. (3 marks)

(c) Fill in the table below with the direction of the variables (rise or fall) that change in response to the events in the first column. (12 marks)

	U.S. real interest rate	**U.S. domestic investment**	**U.S. net capital outflow**	**U.S. real exchange rate of domestic currency**
U.S. government budget deficit increases				
U.S. imposes import quotas				
capital flight from the United States				

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